

Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 EA-07 ISO-00 FEA-01 STR-04 CIAE-00

DODE-00 NSAE-00 NSCE-00 SSO-00 USIE-00 INRE-00 ERDA-05

AID-05 CEA-01 CIEP-01 COME-00 FPC-01 H-02 INR-07

INT-05 L-03 NSC-05 OMB-01 PM-04 SAM-01 OES-03 SP-02

SS-15 STRE-00 TRSE-00 NEA-10 IO-10 /113 R

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FM SECSTATE WASHDC

TO USMISSION OECD PARIS IMMEDIATE

AMEMBASSY BONN IMMEDIATE

AMEMBASSY ROME IMMEDIATE

AMEMBASSY BERN IMMEDIATE

AMEMBASSY STOCKHOLM IMMEDIATE

AMEMBASSY COPENHAGEN IMMEDIATE

AMEMBASSY DUBLIN IMMEDIATE

AMEMBASSY LUXEMBOURG IMMEDIATE

AMEMBASSY LONDON IMMEDIATE

AMEMBASSY THE HAGUE IMMEDIATE

AMEMBASSY BRUSSELS IMMEDIATE

AMEMBASSY OTTAWA IMMEDIATE

AMEMBASSY TOKYO IMMEDIATE

AMEMBASSY VIENNA IMMEDIATE

AMEMBASSY MADRID IMMEDIATE

AMEMBASSY ANKARA IMMEDIATE

AMEMBASSY WELLINGTON IMMEDIATE

AMEMBASSY OSLO IMMEDIATE

USMISSION EC BRUSSELS IMMEDIATE

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E.O. 11652: GDS

TAGS: ENRG

SUBJECT: IEA: SLT MEETING OF OCTOBER 27-30

SUMMARY: FOLLOWING FOUR DAYS OF ARDUOUS NEGOTIATIONS, LONG-TERM COOPERATIVE PACKAGE AGREED UPON AT SLT LEVEL AND SUBMITTED TO GOVERNING BOARD FOR APPROVAL AND RESOLUTION OF THREE MAJOR OPEN ISSUES. TEXT IS MORE SUBSTANTIAL THAN LAST JULY'S AND INCLUDES CHAPTERS ON GENERAL PURPOSES, CONSERVATION, ACCELERATED DEVELOPMENT, AND DISCRIMINATORY PRACTICES. R&D CHAPTER WILL BE REVIEWED BY R&D SUBGROUP ON NOVEMBER 4 AND AVAILABLE SHORTLY THEREAFTER. MAJOR ISSUES STILL OPEN FOR GOVERNING BOARD DECISION ARE (A) LEVEL OF MSP (B) NATURE OF REQUIREMENT TO PRE-POSITION THROUGH LEGISLATIVE ACTION MEASURES TO MAINTAIN MSP; AND (C) NATURE OF COMMITMENT ON NON-DISCRIMINATORY ACCESS TO INVESTMENT AND PRODUCT OFF-TAKE. FINAL SLT TEXT AND

CHAIRMAN'S NOTE WILL BE DISTRIBUTED TO POSTS WHEN AVAILABLE. END SUMMARY.

1. MAJOR UNRESOLVED ISSUES AS WELL AS THOSE ON WHICH INDIVIDUAL COUNTRIES HAVE TAKEN FORMAL RESERVATION AT SLT LEVEL ARE AS FOLLOWS:

2. GUIDING PRINCIPLES FOR PROJECT-BY-PROJECT COOPERATION US

PROPOSED GUIDING PRINCIPLES AIMED AT ENCOURAGING INVESTMENT IN SPECIFIC ENERGY PROJECTS WITH CONSIDERATION IN SPECIAL CIRCUMSTANCES FOR OFFTAKE GUARANTEES. GENERALLY ACCEPTABLE TO ALL DELEGATIONS EXCEPT: A) CANADA - PREFERRED WEAKER VERSION GIVING MORE DISCRETION TO HOST COUNTRY. B) DENMARK - WHICH HAS RESERVED ON PROJECT BY PROJECT APPROACH TO ACCESS PENDING OUTCOME OF NEGOTIATIONS ON GENERAL ACCESS PROVISIONS, WHERE DANES PUSH FOR FIRM, BINDING COMMITMENT TO NON-DISCRIMINATION.

3. INCLUSION OF OIL PRODUCTS

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GERMANY, SWITZERLAND, AND AUSTRIA OPPOSE INCLUSION OF OIL PRODUCTS UNDER MSP PRIMARILY BECAUSE OF CONCERN THAT COMPETITIVENESS OF THEIR PETROCHEMICAL INDUSTRIES MIGHT BE AFFECTED IF COMMITMENT ACTIVATED. THIS CONCERN SHARED BY SPAIN, ITALY AND TURKEY.

4. DEFINITION OF IMPORTED OIL

A) EC COMMISSION (AND MOST EC COUNTRIES) - EXPRESSED RESERVATION ON DRAFT'S FORMULATION ON DEFINITION OF IMPORTED OIL WHICH WOULD BE COVERED BY MSP COMMITMENT BECAUSE OF PROBLEM OF EEC OBLIGATIONS IN ITS PREFERENTIAL TRADING AGREEMENTS. DANES EXPRESSED CONFIDENCE THIS PROBLEM COULD BE RESOLVED, AND IT IS BEING ADDRESSED IN VARIOUS EC MEETINGS OVER NEXT SEVERAL WEEKS. B) TURKEY AND NEW ZEALAND TOOK POSITION THAT FINAL AGREEMENT MUST PROVIDE EXCEPTIONS FROM MSP COMMITMENT FOR OIL IMPORTED UNDER BILATERAL AGREEMENTS (IRAQ AND LIBYA FOR TURKEY AND AUSTRALIA FOR NEW ZEALAND) IN ORDER TO BE ACCEPTABLE TO THEIR GOVERNMENTS. C) UK AND NORWAY TOOK RESERVATIONS OVER THEIR DESIRE THAT MSP SYSTEM BE CLEARLY DESIGNED TO OFFER THEM ASSURANCES THAT THEY WOULD BE ABLE TO SELL THEIR OIL AT MSP LEVEL WITHIN THE EC BEHIND A COMMON EC MSP MECHANISM. THIS IS ANOTHER ASPECT OF THE GENERAL EC QUESTION REGARDING THE MSP AND WILL ALSO BE DISCUSSED WITHIN EC OVER COMING WEEKS.

5. PREPOSITIONING - DRAFT TEXT PROVIDES ILLUSTRATIVE OPTIONAL FORMULATIONS ON PRE-POSITIONING ISSUE. THIS QUESTION RELATES TO WHETHER IEA GOVERNMENTS WOULD BE REQUIRED IN ADVANCE OF A DROP IN WORLD PRICE BELOW THE MSP LEVEL TO DEMONSTRATE LEGISLATIVE AND ADMINISTRATIVE CAPABILITY TO IMPOSE MEASURE OR MEASURES FROM AN AGREED LIST TO MAINTAIN THE MSP. GERMANY, JAPAN AND OTHERS STRONGLY PREFER NO PREPOSITIONING REQUIREMENTS IN ORDER TO AVOID

HAVING TO GO TO THEIR PARLIAMENTS NOW WITH REQUEST FOR NEW LEGISLATIVE AUTHORITY AND, IN CASE OF GERMANY, TO AVOID EARLY SHOWDOWN WITH FRANCE OVER POSSIBILITY OF EEC-WIDE MEASURE. NORWAY AND UK TAKE OPPOSING VIEW THAT STRONG

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PREPOSITIONING REQUIREMENT IS ESSENTIAL TO CREDIBILITY OF MSP SCHEME FOR PRIVATE INVESTORS IN THAT IT IS ONLY WAY TO PROVIDE ASSURANCE THAT COUNTRIES WOULD ACTUALLY BE ABLE TO MAINTAIN THE PROTECTED PRICE.

6. LEGISLATIVE AND ADMINISTRATIVE OBSTACLES AND DISCRIMINATORY PRACTICES (ACCESS ISSUE)

AGREEMENT REACHED BY PARTICIPATING COUNTRIES ON PARAGRAPHS DEALING WITH LEGISLATIVE AND ADMINISTRATIVE OBSTACLES AND NATURE OF PERIODIC REVIEW BUT THEY ARE STILL FAR APART ON TREATMENT OF DISCRIMINATORY PRACTICES. THREE VERSIONS OF THIS PROVISION WERE SUBMITTED TO GOVERNING BOARD FOR DECISION RANGING FROM NO COMMITMENT AT ALL TO STRONG, BINDING COMMITMENT FAVORED BY DANES AND

SOME OTHERS UNDER WHICH IEA COUNTRIES WOULD FORESWEAR ANY NEW DISCRIMINATORY PRACTICES AGAINST OTHER IEA COUNTRIES WITH RESPECT TO ENERGY PRICES, INVESTMENT, EXPORT, ETC. US PREPARED VERSION WOULD ESTABLISH NON-DISCRIMINATION AS DESIRABLE PRINCIPLE TO BE TAKEN INTO ACCOUNT IN FORMULATION OF NATIONAL POLICIES LIES ABOUT IN THE MIDDLE.

7. MSP LEVEL:

COMPOSITION OF NATIONAL GOVERNMENT ESTIMATES PREPARED IN MAY INDICATES MAJOR INCREASE IN IEA ENERGY PRODUCTION AT 6-8 DOLS A BARREL OF OIL EQUIVALENT WHILE RECENT SECRETARIAT PAPER ESTIMATES LEVEL OF OIL PRICE AT WHICH COMMERCIAL INDUCEMENT TO DEVELOP ENERGY SOURCES WOULD BE PUT AT RISK AS FOLLOWS:

.. ..1975 DOLLARS BBL CRUDE QUIVALEN

	1980	1985
NORTH SEA CRUDE OIL	3.70	4.10
NORTH SLOPE CRUDE OIL	4.75	5.50
US STEAM COAL		
EASTERN DEEP-MINES	6-7	N/A
WESTERN SURFACE - MINED	2.50 - 5.00	N/A

SECRETARIAT FIGURES WERE STRONGLY QUESTIONED BY NORWAY, UK, AND OTHERS AND WELCOMED BY FRG AS SUPPORTING THEIR CASE FOR MSP IN 5-6.00 DOLS CIF RANGE. SECRETARIAT PAPER WILL BE FURTHER DISCUSSED AT MEETING OF IEA AD HOC GROUP ON ACCELERATED DEVELOPMENT ON NOVEMBER 12-14. MSP
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LEVEL WILL BE DETERMINED BY GOVERNING BOARD AND WILL CLEARLY BE SUBJECT TO HARD BARGAINING, ALTHOUGH EFFECTIVE

RANGE WITHIN WHICH NEGOTIATIONS WILL BE CONDUCTED PROBABLY LIES IN 5 DOLS TO 7 DOLS FOB OR 6 DOLS TO 8 DOLS CIF. KISSINGER

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